SaskWater

Saskatchewan Water Corporation

First Quarter Report
June 30, 2016

SaskWater

Corporate Profile

SaskWater is committed to providing the highest level of service to its customers.

That promise is reflected in the corporation's Vision, Mission and Values.

Our Vision is to be the best at connecting water for life and growth, partnering for a better tomorrow.

Our Mission is to provide safe, reliable and sustainable water and wastewater services for Saskatchewan.

SaskWater is Saskatchewan's commercial Crown water utility, helping communities, First Nations and industry gain access to reliable and professional water and wastewater services.

SaskWater provides professional water and wastewater services to 64 communities, nine rural municipalities, 85 rural pipeline groups, 16 industrial and 236 commercial and end user customers. SaskWater serves more than 74,000 people in Saskatchewan

The corporation owns eight water treatment plants, three wastewater facilities, 39 pump stations, 140 kilometres of canal and 935 kilometres of pipeline. SaskWater also maintains customer-owned systems and provides operator training to 29 Saskatchewan First Nations communities.

SaskWater's Values

Integrity - We act ethically with respect, honesty, courtesy and fairness.

Professionalism - We provide quality, expertise and excellence in the delivery of our services, and we are accountable for our actions.

Teamwork - We promote cooperation and commitment to achieve our common goals.

Safety - We are committed to safety in all aspects of our operations.

Innovation - We pursue continuous improvement and innovative solutions.

Environment - We respect and support the environment and communities where we live and work.

SaskWater

Financial and Operating Highlights

	Three Months Ended June 30	
	2016	2015
FINANCIAL HIGHLIGHTS ($ thousands):		
Total revenue	$ 12,844	$ 12,605
Total expenses	10,316	10,230
Operating income	2,528	2,375
Net finance income (expense)	21	(961)
Net Income	$ 2,549	$ 1,414
Unrealized gains (losses) included in net finance amount	$ 454	$ (681)
Dividends	$ 381	$ 365
Debt Ratio	44.94 %	45.38 %
OPERATING HIGHLIGHTS (cubic meters):		
Non-potable water distributed	9,833,180	9,740,454
Potable water distributed	2,071,803	1,952,802

SaskWater

Management Discussion and Analysis

Introduction

Management's Discussion and Analysis (MD&A) highlights the primary factors that affected the financial results and operations of SaskWater for the three months ended June 30, 2016.

The MD&A should be read in conjunction with the unaudited condensed financial statements which have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS).

The SaskWater Board of Directors approved these interim financial statements at their meeting on August 24, 2016.

For additional information refer to SaskWater's 2015-16 Annual Report.

SaskWater has defined four measurable strategic objectives to guide the corporation: Customer Driven, Pursuing Excellence, Valuing Employees, and Succeeding Financially.

SaskWater employs provincially certified operators supported by a team of highly qualified technicians, technologists and professional engineers. In addition to operating its own systems, the company also provides certified operations and maintenance for water and wastewater systems.

SaskWater currently owns and operates regional wastewater treatment facilities at Nipawin and Fort Qu'Appelle and a municipal wastewater facility serving Pierceland.

SaskWater can address new demands for water and wastewater services from municipal customers through further:

- Development of service clusters for cost-effective delivery of services to customers

- Implementation of proven treatment plant technologies that exceed regulatory requirements and ensure quality control is maintained, and,

- By ensuring the company has the people and the training to meet anticipated demand for services.

SaskWater

Highlights

Non-Potable Water

Non-potable water volumes have increased 1% in the three month period ended June 30, 2016 compared to the same period in 2015. Non-potable water is primarily distributed to large industrial customers, especially in the potash mining sector. The change in volumes is largely related to market conditions within the potash sector.

Potable Water

Potable water volumes have increased 6.1% in the three month period ended June 30, 2016 compared to the same period in 2015. Potable water is primarily supplied to municipal customers. Seasonal fluctuations are more often noted during the first and second quarters and are influenced by temperature and precipitation and the resulting impact on such uses as lawn and garden watering. Water volumes within municipalities tend to be more stable during the third and fourth quarters of the year.

Services

Service revenues include certified operations and maintenance where SaskWater provides operator expertise to run customer owned facilities; project management which is largely related to pre-construction engineering services while project proponents complete their feasibility analysis; operator training support to 29 First Nations and northern project management which relates to engineering services to northern Saskatchewan communities primarily in conjunction with the Ministry of Government Relations.

Project management revenues were higher in the three month period ended June 30, 2015 than in the same period in 2016. This was largely in response to a decision by a major project proponent late in 2015 to slow the pace of their work.

Expenses

Expenses have increased in the three month period ended June 30, 2016 over the same period in 2015, despite the decreased project management work, largely due to the increased volume of water distributed, and rate increases from major suppliers, particularly urban water utilities that SaskWater purchases treated water from to redistribute to customers.

Net Finance Expense

Finance costs include debt serving costs on funds borrowed to support investments and earnings on debt retirement funds that are set aside to retire capital market debts on their maturity. The debt retirement funds were $15.441 million at June 30, 2016. Debt retirement funds are adjusted to reflect the change in market value of the underlying securities at each reporting period. During the three month period ended June 30, 2016, SaskWater recorded a positive market adjustment of $454. There was a negative market adjustment of $681 during the same period in 2015. The market adjustments alone account for over $1.1 million of the difference between the two reporting periods.

Saskatchewan Water Corporation

Statement of Financial Position

(unaudited - thousands of dollars)

	as at June 30, 2016	as at March 31, 2016	Change
Assets			
Current assets			
Cash	$ 3,467	$ 7,192	$ (3,725)
Trade and other receivables	10,902	9,097	1,805
Prepaid expenses and inventories	834	1,091	(257)
	15,203	17,380	(2,177)
Investment - debt retirement funds	15,441	14,769	672
Property, plant and equipment	298,573	296,724	1,849
	$ 329,217	$ 328,873	$ 344
Liabilities and Province of Saskatchewan's Equity			
Current liabilities			
Trade and other payables	$ 6,018	$ 8,536	$ (2,518)
Notes payable	14,019	12,999	1,020
Infrastructure deposits	3,515	5,390	(1,875)
Dividends payable	381	190	191
Current portion of deferred revenue	3,684	3,943	(259)
Current portion of long-term debt	2,600	-	2,600
	30,217	31,058	(841)
Deferred revenue	191,436	189,777	1,659
Provisions	1,474	1,516	(42)
Long-term debt	46,818	49,418	(2,600)
Employee benefits	470	470	-
	270,415	272,239	(1,824)
Province of Saskatchewan's Equity			
Equity advance	8,700	8,700	-
Retained earnings	50,102	47,934	2,168
	58,802	56,634	2,168
	$ 329,217	$ 328,873	$ 344

Saskatchewan Water Corporation

Statement of Operations and Comprehensive Income

(unaudited - thousands of dollars)

	Three months ended June 30		
	Actual 2016	Actual 2015	Variance
Revenue (Note 4)			
Water sales and treatment	$ 10,315	$ 9,502	$ 813
Services	1,410	2,216	(806)
Other	1,119	887	232
	12,844	12,605	239
Expenses			
Salaries and benefits	3,208	2,960	(248)
Operations, maintenance, and administration	2,419	3,076	657
Amortization of property, plant and equipment	2,200	1,937	(263)
Bulk water purchases	2,324	2,082	(242)
Saskatchewan taxes	165	175	10
	10,316	10,230	(86)
Operating income	2,528	2,375	153
Finance income	549	197	352
Finance expense	(528)	(1,158)	630
Net finance income (expense) (Note 5)	21	(961)	982
Net income	$ 2,549	$ 1,414	$ 1,135
Other comprehensive income	-	-	-
Total comprehensive income	$ 2,549	$ 1,414	$ 1,135

Saskatchewan Water Corporation

Statement of Retained Earnings

(unaudited - thousands of dollars)

	Three months ended June 30		
	Actual 2016	Actual 2015	Variance
Retained Earnings			
Retained Earnings, beginning of period	$ 47,934	$ 43,945	$ 3,988
Total comprehensive income for the period	2,549	1,414	1,135
Dividends	(381)	(365)	(16)
Retained Earnings, end of period	$ 50,102	$ 44,994	$ 5,107

Saskatchewan Water Corporation

Statement of Cash Flows

(unaudited - thousands of dollars)

	Three months ended June 30 2016	June 30 2015
Operating activities		
Net income	$ 2,549	$ 1,414
Items not affecting cash from operations:		
Amortization of property, plant and equipment	2,200	1,937
Impairment of assets	-	-
Amortization of deferred revenue	(996)	(737)
Amortization of provisions - onerous contracts	(63)	(61)
Net financing (income) expense	(21)	961
Loss (gain) on disposal of property, plant and equipment	-	4
Change in non-cash working capital items:		
Trade and other receivables	(1,805)	(4,229)
Prepaid expenses and inventories	257	32
Trade and other payables	(2,612)	2,354
Infrastructure deposits	(1,875)	366
Deferred revenue	2,396	9,093
Interest paid	(412)	(444)
Interest received	5	4
Cash provided by operating activities	(377)	10,694
Investing activities		
Property, plant and equipment expenditures	(4,049)	(11,845)
Proceeds on disposal of property, plant and equipment	-	18
Cash used in investing activities	(4,049)	(11,827)
Financing activities		
Proceeds from long-term debt	-	-
Proceeds from (Repayments of) notes payable	1,020	40
Repayment of long-term debt	-	-
Debt retirement fund installments	(129)	(129)
Debt retirement fund Redemptions	-	-
Dividends paid	(190)	(297)
Cash provided by financing activities	701	(386)
Change in Cash	(3,725)	(1,519)
Cash, Beginning of Period	7,192	7,440
Cash, End of Period	$ 3,467	$ 5,921

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

June 30, 2016

1. General Information

The Saskatchewan Water Corporation (the Corporation) is a corporation located in Canada. The address of the Corporation's registered office and principal place of business is 200-111 Fairford Street East, Moose Jaw, SK, S6H 1C8.

The Corporation was established on July 1, 1984 under the authority of The Water Corporation Act which remained in effect until December 31, 2002. On October 1, 2002 The Saskatchewan Water Corporation Act was proclaimed.

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada, but is subject to Provincial corporate capital tax.

The principal activity of the Corporation is to construct, acquire, manage or operate works and to provide services in accordance with any agreements that it enters into pursuant to *The Saskatchewan Water Corporation Act*.

2. Basis of Preparation

Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 - *Interim Financial Reporting* and accordingly do not include all of the information required for full annual financial statements.

The condensed interim financial statements were authorized for issue by the Board of Directors on August 24, 2016.

Interim measurement

SaskWater's sales to municipal customers are seasonal, with the first and second quarters being the strongest periods, reflecting hotter weather and higher outdoor water usage.

Basis of measurement

The condensed interim financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments that are accounted for at fair value through profit and loss.
- Provisions.
- Employee benefit obligations.

Functional and presentation currency

These financial statements are presented in Canadian Dollars, which is the Corporation's functional currency.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited
June 30, 2016

2. Basis of Preparation (continued)

Use of estimates and judgments

The preparation of these condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies are:

- Valuation of trade and other receivables
- Underlying estimates of useful lives and amortization of property, plant and equipment
- Underlying estimates of deferred revenue and infrastructure deposits
- Carrying amounts of provisions and underlying estimates of future cash flows
- Carrying amounts of employee benefits and underlying actuarial assumptions
- Underlying estimates for future commitments and contingencies

3. Significant Accounting Policies

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those disclosed in the corporation's March 31, 2016 audited financial statements.

The accounting policies have been applied consistently to all periods presented in these condensed interim financial statements.

New standards and amendments to standards

The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2016, have been applied in preparing these condensed financial statements:

- IAS 1 *Presendation of Financial Statements*

The adoption of these amended standards had no impact on the condensed financial statements.

3. Significant Accounting Policies (continued)

New standards and interpretations not yet adopted

The following new and ammended standards are not yet effective and have not been applied in preparing these financial statements:

IAS 7, *Statement of Cash Flows (disclosure initiative)*. This ammended Standard is effective for annual periods beginning on or after January 1, 2017.

IFRS 9, *Financial Instruments* - replaces IAS 39 *Financial Instruments: Recognition and Measurement*. This Standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers* - clarifies the principles for recognizing revenue from contracts with customers and will affect certain of the Corporation's accounting policies upon its effective date. This standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 16, *Leases* - replaces IAS 17 *Leases*. This Standard is effective for annual periods beginning on or after January 1, 2019.

The Corporation is continuing to review the new and amended standards and has not yet determined the impact on its condensed financial statements.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited
June 30, 2016

4. Revenue

	Three months ended June 30	
	2016	2015
	(Thousands)	
Water sales and treatment		
Potable water supply	$ 5,616	$ 4,873
Non-Potable water supply	4,543	4,457
Wastewater treatment	156	172
	10,315	9,502
Services		
Certified operations & maintenance	494	419
Project management	557	1,435
Northern project management	159	164
Operator training	192	183
Leak detection	8	15
Other services	-	-
	1,410	2,216
Other		
Amortization of customer contributions	929	679
Amortization of government grants - capital related	67	57
Miscellaneous revenue	123	151
	1,119	887
	$ 12,844	$ 12,605

5. Finance income and expenses

	Three months ended June 30	
	2016	2015
	(Thousands)	
Finance income		
Debt retirement fund earnings	$ 90	$ 193
Positive changes in fair value of debt retirement funds	$ 454	$ -
Other finance income	5	4
	549	197
Finance expenses		
Interest expense on short-term debt	19	39
Interest expense on long-term debt	487	410
Negative changes in fair value of debt retirement funds	-	681
Unwinding of discount on provisions	21	27
Other interest expense	1	1
Borrowing costs capitalized to qualifying assets	-	-
	528	1,158
Net finance income (expense)	$ 21	$ (961)

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited
June 30, 2016

6. Equity Advance and Capital Disclosure

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

The Corporation's debt management plan is built on the goal of ensuring the capacity to meet long term obligations and ensuring financial health, while achieving the growth plans of the Corporation.

As a Crown corporation, SaskWater receives its long-term capital funding primarily from the Saskatchewan Ministry of Finance. SaskWater also has access to a $30 million line of credit, extended by the Saskatchewan Ministry of Finance, which is used to manage short-term liquidity.

The Corporation's capital consists of notes payable, long-term debt and equity, less debt retirement funds.

The Corporation monitors capital on the basis of the debt ratio. The current long-term debt ratio target is 60%, which is consistent with the prior period. The debt ratio is calculated as net debt divided by end of period capitalization as follows:

	June 30, 2016	March 31, 2016
	(Thousands)	
Gross long-term debt	$ 49,418	$ 49,418
Notes payable	14,019	12,999
Debt retirement funds	(15,441)	(14,769)
Net debt	47,996	47,648
Total equity	58,802	56,634
Capitalization	$ 106,798	$ 104,282
Debt ratio	44.9%	45.7%

The Corporation has complied with all externally imposed restrictions on its debt for the period ended June 30, 2016.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited
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7. Commitments and Contingencies

a) Contractual commitments (Thousands)

As of June 30, 2016, the Corporation has outstanding commitments of $16,523 (March 31, 2016 - $14,031) for construction contracts and consulting agreements primarily relating to assets under construction and other service contracts.

b) Litigation

The Corporation has provided, in its accounts, for any known claims from lawsuits or other legal proceedings for which there is material risk of liability to the Corporation in accordance with management's best estimates and the advice received from legal counsel. The Corporation intends to account for any differences which may arise between amounts provided and amounts expended in the period in which the claims are resolved.

8. Financial instruments

a) Fair values

Fair values are the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The following summarizes the classification, carrying amounts and fair values of the Corporation's financial instruments:

	Classification[1]	June 30, 2016 Asset (Liability)		March 31, 2016 Asset (Liability)	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Thousands)			
Financial assets					
Cash	FVTPL	$ 3,467	$ 3,467	$ 7,192	$ 7,192
Trade and other receivables	L&R	10,902	10,902	9,097	9,097
Debt retirement funds	FVTPL	15,441	15,441	14,769	14,769
Financial liabilities					
Trade and other payables	OL	6,018	6,018	8,536	8,536
Notes payable	OL	14,019	14,019	12,999	12,999
Dividends payable	OL	381	381	190	190
Infrastructure deposits	OL	3,515	3,515	5,390	5,390
Long-term debt	OL	49,418	54,948	49,418	53,593

[1]Classification details are as follows:
FVTPL - Fair value through profit and loss
L&R - Loans and Receivables
OL - Other Liabilities

8. Financial instruments (continued)

The estimated fair values of these financial instruments have been determined based on the following methods and assumptions, and may not represent the amounts that could be realized upon settlement.

All long-term debt obligations are estimated using discounted cash flow analysis based on current market yields for similar arrangements (Level 2). Debt retirement funds are valued at closing period-end unit prices received from the Saskatchewan Ministry of Finance (Level 2).

b) Determination of fair values

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash, trade and other receivables, trade and other payables and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.
Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

	June 30, 2016		March 31, 2016	
	Level 1	Level 2	Level 1	Level 2
	(Thousands)			
Debt retirement funds	$ -	$ 15,441	$ -	$ 14,769
Long-term debt	$ -	$ 54,948	$ -	$ 53,593